# April Outlook – From Lockdown To Vaccinated Economy


## SUMMARY

- **Global economic growth accelerates on improved manufacturing and services.** The JPM global manufacturing PMI rises to ten-year high with a reading of 55.0 in Mar-21 (Feb-21: 53.9) as growth of output, new orders and employment gather pace. Top-ranked nations were Germany, the Netherlands, Austria, Italy and France, taking the combined PMI for the euro area to its highest on record. Meanwhile, the global services sector revival saw the JPM Global Composite Index rising to 54.8 in Mar-21, a 79-month high. Five out of the six broad sub-sectors registered expansions during Mar-21 with the fastest growth seen at financial service providers.
- **BNM and MoF revised the lower bound of local GDP growth targets lower for 2021** by 0.5% to 6.0%, largely due to the implementation of MCO 2.0. At the same time, deficit and debt levels are expected to rise with the estimated RM11bn fiscal injection required for the newly announced RM20bn PEMERKASA stimulus package. These revisions would reinforce S&P's concerns on sovereign rating. Rating review is expected by Jun-21.
- **Bond market review - The global bond market rout continued in Mar-21** with the 10y UST yield adding +30bps MoM on the back of continued optimism of a strong economic recovery stemming from Biden's USD1.9trn stimulus plan. The UST yield curve steepened further MoM. This was despite the Fed's Powell and Yellen's reiteration to maintain rates at low levels and that bond purchases will continue even as inflation overshoots 2%. Locally, the 3y MGS yield spike up as the MPC statement signaled the end of rate cut cycle. However, pressure on the longer-end was moderated by reemergence of buying interest following the retention of MGS in FTSE-Russell's World Global Bond Index.
- **Macro – The Western developed economies have charged up ahead of the East in 1Q21 with PMI manufacturing numbers clearly beating the Asian nations which were leaders in 2H20.** The current steepening yield curve is reflective of this recovery phenomenon while we do not discount possibility on the Fed to engage Operation Twist to compress UST yields at longer-end tenures to facilitate the US government's large issuances in 2Q-3Q21 as well as to ease financial conditions, when needed. Separately, in Asia, the rise in output prices have yet to catch up with surging input prices due mainly to increasing commodity prices. Thus, the Asian manufacturers might face margin compression in the near term.
- **Equities – Better months ahead after profit taking activities started in Mar-21.** To recap, Mar-21 has been a bearish month with profit-taking activities mainly surrounding growth stocks which had earlier surged on economic recovery. Post profit taking, they are now at more attractive levels while we also expect rotational shift to value stocks. For Apr-21, we expect 3 sectors to potentially breakout, namely the financial, property and construction sectors with the first two being value sectors while the latter one being growth sector. Overall market sentiment should also be supported by stronger corporates' fundamentals as shown in their recent FY20 results whereby we saw the highest ratio for companies reporting earning above expectations over those reporting below expectations since 10 years ago.
- **Fixed Income – Moving forward, we foresee local yields to track that of UST yields** which are expected to be volatile. Upward yield pressure will stem from Biden's US2.2trn infrastructure plan which will drive US' continued growth trajectory after the release of favourable macroeconomic data in Mar-21. On the other hand, yields may retrace as market participants may scale back expectations for the Fed to lift rates by end-2022 as majority of Fed officials do not see a benchmark interest rate hike until after 2023.

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